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ABSTRACT

A national survey revealed that 13 states have created legislation to assist financially distressed schools. Focusing on two states, Indiana and Pennsylvania, the report outlines different methods they have developed to deal with financially distressed schools. In Pennsylvania a distressed school district is taken over by the state, whereas in Indiana the state approves remedies from local sources of revenue with limited controls. In Illinois a 1982 study attempted to determine commonality of problems in troubled districts. A list is also provided of the methods states have chosen to use with schools experiencing financial difficulties. An analysis of schools with financial difficulties in Ohio found that no single factor is responsible. The report lists 33 factors contributing to financial difficulties. A table listing each state's response in appended. (MD)

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State Assistance to Financially Distressed School Districts

For many and various reasons, school districts across the country are finding themselves in financial difficulties. Some have found it necessary to seek state assistance in order to continue with their day-to-day operation. Several state legislatures have attempted to create laws that can assist these financial distressed schools. The purpose of this report is to depict how two states have dealt with this problem.

The State/Province Departments of Education Research Committee of the Association of School Business Officials surveyed all states and provinces concerning state assistance to financially distressed school districts. A survey instrument was sent to all state/province ASBO presidents and the Directors of School Finance of each state/province Department of Education. For purposes of the survey, a financially distressed school district was defined as a district whose expenditures were greater than their revenues and request state assistance.

The survey was conducted in the summer of 1983, and 48 states responded (96%). Three provinces also returned the questionnaire. Thirteen states reported that there was legislation pertaining to financially distressed schools. Table A depicts the states and provinces that responded.

Rather than describing in detail all thirteen statutory references, this article will focus on two states. The Indiana and Pennsylvania laws speak to different methods of dealing with financially distressed schools.

INDIANA

The Indiana General Assembly enacted a mechanism to deal with financially distressed districts in 1973. The following will be an overview of the Indiana law and its effects over the past ten years.

In Indiana, the School Property Tax Control Board (hereinafter referred to as the Control Board) has the responsibility to assist financially troubled districts. The Control Board was established under the 1973 Indiana tax package (Public Law 45, Acts of 1973).

The Control Board consists of five voting members and two ex officio nonvoting members. Of the five voting members, one is appointed by the State Board of Accounts, and one is appointed by the State Board of Tax Commissioners. The remaining three are appointed by the Governor, who may seek the recommendation of the Superintendent of Public Instruction for one of the appointments. The remaining two members are appointed by the Governor and must not be an elected or appointed official nor be employed by the State of Indiana. The two nonvoting members are appointed by the Speaker of the House of Representatives (a State Representative) and the President Pro Tempore of the Senate (a State Senator). Control Board members receive no compensation, except mileage and per diem.

The Control Board has the authority to recommend emergency financial relief to fiscally depressed school corporations. When a district receives this relief, it becomes a "controlled" school corporation. Since 1974, 52 Indiana school districts have been designated as controlled. For 1983, eight districts sought and were granted financial relief.

In order to receive financial assistance, a district must file a budget appeal called an emergency financial relief petition. With an emergency appeal, the school corporation states that it "cannot, in the ensuing calendar year, carry out the public educational duty committed to it by law" unless it receives emergency financial relief. If the Control Board determines this to be the case, it can recommend to the State Board of Tax Commissioners any, or a combination, of the following actions to assist local districts:

. a grant or grants from any of the funds of the state that are available for such a purpose;

. a loan or loans from any funds of the state that are available for such a purpose;

. permission to borrow funds from a source other than the state;

. an advance of state funds that will become payable to the district;

. permission to use any unobligated balance in its Cumulative Building Fund (CBF) for general fund purposes;

. permission to use any unobligated balance in any construction fund for general fund purposes.

The actions of the Control Board have been very beneficial to those districts seeking assistance. Without the aide provided by the Control Board, several of these districts would have found themselves in an untenable situation.

PENNSYLVANIA

A school district in Pennsylvania will be deemed distressed if it meets one of seven circumstances found in Pennsylvania law. These circumstances range from unpaid teacher salaries to defaulting on bond payments. If a district meets any of the criteria, then the Superintendent of Public Instruction issues a certificate declaring such district in financial distress.

When a district is declared distressed, the Superintendent of Public Instruction shall petition the court of common plea of the county in which such district is located to appoint two citizens who are qualified electors and taxpayers in the county in which the school district is located. These two citizens and the Superintendent of Public Instruction or his designate constitute a special board of

control. This special board of control assumes control of the affairs of the district and operate in place of the school board during the period necessary to reestablish a sound financial structure.

The special board of control assumes control of the distressed district and has all of the powers authorized for the school board. The school board of the distressed district shall have no power to act without the approval of the special board of control.

The special board of control has the power to require the affected school board "to revise the districts budget for the purpose of effecting such economics as it deems necessary to improve the districts financial condition." The special board of control may require any or all of the following:

1. Cancel or renegotiate any contract other than teacher contracts
2. Increase tax levies as permitted by the special board of control law
3. Appoint a special collector of delinquent taxes
4. Have the accounts of the distressed school district audited
5. Dispense with the services of such nonprofessional employees that are not actually needed
6. Suspend such number of professional employees as may be necessary to maintain a pupil-teacher ratio of not less than twenty-six to one for the combined elementary and secondary school enrollments.

From this analysis, it is apparent that Indiana and Pennsylvania have taken differert paths in assisting financially distressed schools. In Pennsylvania the district is actually taken over by the state, while in Indiana the state approves remedies which are from local sources of revenue with limited controls.

In November 1982, the staff of the Iliinois State Board of Education submitted a very extensive report regarding indicators of fiscal crisis. The study attempted to determine if there are any financial, economic or demographic factors that characterize troubled districts. A few of the conclusions of this report are as follows:

1. Operating expense of Illinois school districts has increased by 171% on average. Financially troubled school districts have experienced increases of up to 462% in their operating expense.

2. Approximately 33 percent of Illinois school districts are currently forced to borrow monies from outside sources each year.

3. The dollar amount of borrowing and the number of district borrowing monies has decreased each year since 1978.

4. High school districts are much less likely to be in financial difficulty than unit or elementary districts.

5. Districts in financial difficulty are concentrated somewhat evenly throughout the state.

6. There was no discernible relationship between levels of operating tax rates and equalized assessed valuations per pupil among financially troubled districts.

7. Commonality in size of the enrollments has not been a characteristic of financially troubled districts.[1]

In the Illinois study, there was reported how states have reacted to school districts which have encountered financial difficulty. The varying methods are depicted below:

A. Creating quasi governmental boards of control to oversee financially troubled districts.

B. Creating boards of control with power to grant emergency loans.

C. Providing state departments of education with broader powers to monitor financially troubled districts.

D. Enacting revisions to financial accounting and reporting requirements to provide greater amounts of uniformity.

E. Enacting tighter deficit spending and budgetary control requirements among units of local government and schools.

F. Providing increased technical assistance to financially troubled districts from state departments of education and state audit boards.

G. Enacting statutes that prohibit closing of schools for financial reasons.

H. Introducing and/or enacting state enabling legislation to permit use of 1976 federal bankruptcy proceedings among units of local government or schools.

I. Establishing in statute, or by rule and regulation, certain characteristics which indicate financial difficulty among school districts.[2]

The answers vary to the question, why do school districts find themselves in financial trouble? An analysis of school districts in financial difficulties in Ohio was completed by Joseph Murphy at Ohio State University in 1980. Murphy found that no single factor is totally responsible for school district financial problems. A number of factors were cited as causes. These factors include:

1. Voter resistance to tax increase.
2. Increased costs due to inflation.
3. Inability to forecast state and local revenues.
4. Declining enrollment.
5. State and federal mandates.
6. Higher utility costs.
7. Late collection of taxes.
8. High debt service costs.
9. Damage to property, desegregation.
10. Increasing enrollment.

11. Decline in state aid.
12. Governor's cuts.
13. Business official's audit errors.
14. Employee negotiations.
15. School facility closing costs.
16. Nonpublic schools.
17. Low fiscal capacity and/or low effort.
18. High transportation costs as a percentage of the total operating costs
19. High capital outlays.
20. High concentrations of students requiring more than regular educational services.
21. Low annual average income of residents within counties in which financially troubled districts are located.
22. State minimum salary requirements.
23. Pupil/teacher ratio requirements
24. Increases in the cost of supplies, materials, and maintenance.
25. Increases in costs of meeting state requirements.
26. Increases in costs of meeting educational service personnel requirements.
27. School systems which are not optimally sized, i.e., either too small or too large.
28. Rising school expenditures which cannot be offset by increases in productivity.
29. Desegregation.

30. Educational overburden -- the need for some districts to provide increased services per student and to offer a larger overall educational package.
31. Management incompetence.
32. Role overload -- the inability of schools to map out a realistic scope of activities to perform.
33. Unique or one-time expenditure or revenue problems.[3]

School districts are finding it more difficult day by day to "keep their heads above water". As this article details, many states have tried to provide mechanisms to assist local districts with their financial problems. The trend may be that other states/provinces will follow their lead.

Table A

Does your state have a statutory or administrative procedure concerning financially distressed school districts?

State	Yes	No	State	Yes	No
Alaska		X	New Mexico		X
Alabama		X	New York	X	
Arkansas			North Carolina		X
Arizonia		X	North Dakota		X
California	X		Ohio	X	
Colorado		X	Oklahoma	X	
Connecticut		X	Oregon	X	
Delaware		X	Pennsylvania	X	
Florida		X	Rhode Island		
Georgia		X	South Carolina		X
Hawaii		X	South Dakota		X
Idaho		X	Tennessee		X
Illinois	X		Texas		X
Indiana	X		Utah		X
Iowa	X		Vermont		X
Kansas		X	Virginia		X
Kentucky	X		Washington		X
Louisiana		X	West Virginia		X
Maine		X	Wisconsin		X
Maryland		X	Wyoming		X
Massachusetts	X				
Michigan	X		Provinces		
Minnesota	X				
Mississippi		X	Alberta		X
Missouri		X	Manitoba		X
Montana		X	Saskatchewan		X
Nebraska		X			
Neveda	X				
New Hampshire		X			
New Jersey		X			

Footnotes

1. Illinois State Board of Education Staff, Indicators of Fiscal Crisis, Illinois Public School Finance Project, page 15 November, 1982.

2. Ibid., page 14.

3. Joseph Francis Murphy, "Analysis of Financially Troubled School Districts in Ohio" (Ph.D. Dissertation, Ohio State University, 1980).